March 17, 2005

City of Sunnyvale, Department of Community Development
456 West Olive Avenue
P.O. Box 3707
Sunnyvale, CA 94088

Re: 256 and 292 Gibraltar Condominium Conversion
Appeal Request

ARC TEC # 041330

To whom it may concern,

ARC TEC, Inc. and its client, General Development, Inc., wish to submit this application to convert two existing office buildings located at 256 and 292 Gibraltar Drive into commercial office use condominiums.

The following is the existing project information:

256 Gibraltar:

APN Number: 11034015
Approximately 18,500 square feet
Sprinklered
Single story
Lot Size: 74,053 square feet. (1.7 Acres)
FAR: 24.9%
Zoning District: Previously M-3, changed to MP-TOD

292 Gibraltar:

APN Number: 11034016
Approximately 18,500 square feet
Not sprinklered
Single story
Lot Size: 74,053 square feet. (1.7 Acres)
FAR: 24.9%
Zoning District: Previously M-3, changed to MP-TOD

Prior to purchasing the property, General Development Inc. met with the city of Sunnyvale in September of 2004 for a predevelopment meeting to discuss the proposed concept of dividing the property into condominium units. At the meeting were members of Planning, Public Works, Fire, Building and other agency's. The condominium concept, as proposed today was well received with the only contested issue being the possibility of installing a sidewalk. General Development Inc then moved ahead and purchases the property.

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In November of 2004, we submitted a preliminary submittal to the city of Sunnyvale to receive feedback on the proposed layout and improvements of the project. The comments we received back were all in line with our predevelopment meeting, with the exception that the proposed project does not meet the suggested FAR coverage of 50% and that staff was considering denying the project.

We understand that the City's ultimate desired future uses for the New MP (Moffett Park) TOD district is to have greater F.A.R.'s. The desired (not required) FAR is 50% with a maximum of 70%. However, we believe that there are many positive benefits for allowing the two sites to be converted into condominiums. There are also many physical restraints that will not allow the desired FAR.

The two 1.7 acre parcels are two of the smallest parcels in the MP-TOD district. Large Corporations have typically gone after parcels with a minimum size of 7 acres to build their corporate campuses. They also typically require a minimum of 100,000 square feet of building space as a starting point for a successful "Class A" office project. These sites are also not well suited for "Class A" office because they have no Highway visibility and are not on a major intersection or along main arterials.

In order to achieve a 50% FAR on these sites, the buildings would total only 60,000 square feet, which simply does not fit the corporate Class A Office mold. GDI did a feasibility analysis that maximized the site as staff suggested. The project required a two level above ground parking garage along with a four-story building. Lease rates would be required at a rate of $3.50NNN per square foot. This is not practical in today's market. It is also important to note that these sites are in a flood zone and could cause complications for new development.

The proposed uses will not change from the current use. The buildings are in excellent condition and probably have a life span of greater than 20 years. It is unlikely they would be torn down any time soon. The parcels are near the edge of the MP-TOD district. A good F.A.R. transition site. These buildings have full height windows, 9-ft ceilings, glass on 3 to 4 sides, perimeter entrances, no stairs or elevators to deal with, great parking and multi-tenant capable to 1,000 square feet, great free way access, walk to retail service and mass transit. This type of building does not become obsolete, it just requires maintenance and cosmetic upgrades.

It is likely that the buildings would remain vacant for a period of time unless a different path relative to building ownership is considered. They have currently been vacant for over two years. The condominium conversion would allow the buildings to be occupied much sooner than as a leased building. There has been no interest regarding the purchase or lease of the buildings with the exception being, for private ownership of condominium space. There is currently interest in five of the eight proposed units. The buildings are in excellent conditions and the design of the complex is conducive to an easy separation of the units. The conversion would quickly bring new business owners and support tax revenue into Sunnyvale.

Planning's goals for the area is to have a certain density level to promote the use of the light rail system. It is our understanding that the owners of the condominiums would be able to transfer the additional unused FAR square footage (TDR) to other parcels in this zoning district. We estimate at a 70% FAR that we would have approximately 66,000 square feet of FAR to sell or give away to other properties.

As we understand the Specific Plan, the TDR's concept was set in place for developers who chose not to pursue the suggested F.A.R. of 50%. This plan simply allows the building square footage of one property to be transferred to another parcel. This transfer ensures the population density for the light rail system to be utilized to it's highest potential. Staff has indicated they have plenty of TDR reserves at this time and they don't need any more. We believe that this supports Staff's Market Condition point. The reason there is a surplus of TDR's is because there is no demand for expansion of office space within the area. Only at such a time that the demand for office space becomes great enough, land values will rise and the demand for TDR's will rise. The Specific Plan discusses privatization and working with existing property owners. We pointed this out to staff at our administrative hearing. Staff's reply was, "this was meant for large building owners".

The following information is the current market conditions. It includes historical rental rate information and vacancy rates over the last ten years:

There has been three consecutive years of negative net absorption in Moffett Park. In order for new development to occur, there would need to be consistent absorption for multiple years, the lease rates would need to almost triple, and vacancy would need to drop below 8%. Current Vacancy rates that can be identified in Moffett Park are at 20%. These vacancy rates have been consistent since 2001.

Current lease rates of "Class A" Office Space are between $.80 and $1.35. These lease rates have also been around since January of 2001.The development of new "Class A" Office Space would require rates to be in the $3.00 to $3.50 range. Staff has indicated this is just a dip in the market place. We believe this four-year stretch is more than just a dip. It is our hope that the Planning Commission can understand what developers and property owners are facing.

While there has been some positive absorption, one must look at the whole market and draw on historical perspective to appreciate how this project fits with the Moffett Business Park. The Moffett Business Park has transformed itself over the last six years from a defense-based business to a more diverse technology based park. With Yahoo!, Juniper Networks and Network Appliance joining Lockheed Martin Corporation, the tenant roster has improved tremendously. There is a need of businesses that service these companies. These companies will range from small to mid size. The niches that our proposed project targets are smaller in scale and to people/businesses that desire to own their own facilities. They do not want to be subject to the huge swings of lease pricing that our valley has experienced. These companies provide vital services to their larger counter parts and need to be in close proximity.

In addition to all the vacancy that exists, there are many empty workspaces within buildings not on the market that will need to be filled before those companies will consider expansion. This is known as shadow space.

We feel that the Gibraltar Condominiums are a needed commodity in this area and would be a great asset to the City of Sunnyvale. The project, although relatively small, will take a 100% vacant building and bring back approximately 136 jobs to the city of Sunnyvale from outside areas. And in doing so, the new uses will all be under the current zoning code. We are not proposing any changes of use.

Please do not hesitate to contact me if you have any further questions or desire additional information.

Sincerely,

ARC TEC, Inc.

James R. Fulton
Associate Principal